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C O N F I D E N T I A L SECTION 01 OF 02 MANILA 001889

SIPDIS

FOR THE DEPUTY SECRETARY

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TAGS: [PREL](#) [OVIP](#) [PTER](#) [EAID](#) [ECON](#) [MARR](#) [RP](#)

SUBJECT: SCENESETTER FOR VISIT OF DEPUTY SECRETARY ZOELLICK

REF: MANILA 1799

Classified By: Ambassador Francis J. Ricciardone, reasons 1.4 (b) and (d)

Who we are

11. (U) Manila is our fourth largest post, with about 265 American employees and 1000 locally engaged staff. Our aim is to be the United States' best. The mission of our team of 26 USG agencies is to revitalize and carry to maturity the US-Philippine partnership and alliance by strengthening our mutual security, building our mutual prosperity, and providing excellent service to Americans and Filipinos. Our historic Chancery on the edge of Manila Bay was the site of the war crimes trials of the Japanese commanders in the Philippines in World War II and still proudly bears scars from the Battle of Manila.

Counterterrorism

12. (C) The Global War on Terrorism has propelled the rebuilding of our military-to-military ties under the framework of an 1951 Mutual Defense Treaty and a 1999 Visiting Forces Agreement. The Philippines became a Major Non-NATO Ally in 2003. Four indigenous terrorist groups are on the USG's Foreign Terrorist Organization list. Operatives of the Jemaah Islamiyah are also present and are training local terrorists, who conducted Asia's second most deadly terrorist attack with the February 2004 bombing of a "Superferry" in Manila Bay. They also bombed Manila and two other cities on Valentine's Day 2005. We conduct military training programs year-round (26 in FY 2005), including humanitarian and civil action programs. We will provide \$ 29.76 million in Foreign Military Financing in FY 2005, along with \$ 3 million in IMET (the largest program in Asia and second largest in the world). Our Joint Special Operative Force-Philippines (JSOTF-P) provides Operations/Intelligence Fusion to the Armed Forces of the Philippines in Mindanao to improve the AFP's CT ability.

13. (C) Despite some military successes and captures or killings of several terrorist leaders, we have not yet turned the tide in the GWOT here. AFP performance is spotty at best. Some field commanders remain reluctant to act decisively. Opsec is inadequate. Although we are improving AFP performance capabilities with our training and advice, the AFP needs systemic reform. It will never reach our operational goals without strong RP leadership, and sustained US assistance. The Philippines Defense Reform initiative begun in 2004, with the GRP providing most of the funding and the USG only a minority share, has begun such a process of institutional change. If sustained, it should lead to a more professional, modern, and effective military establishment.

14. (C) We need to conduct a similar reform project for our other key partner in the GWOT -- the Philippine National Police, rated the most corrupt and broken of the key GRP institutions of democracy and governance. As an initial step, in late 2004 we requested INL funding for a "Management Assessment of the Philippine Police" (MAPP), which would provide a roadmap for systemic reform. The GRP is so enthusiastic that it would like to sign a Memorandum of Understanding on the MAPP during Foreign Secretary Romulo's May 17 meeting with Secretary Rice. INL has not yet committed funding to the project, although it plans to send a team in June to consider this project.

15. (C) USAID's assistance programs in Mindanao (where about 60 percent of all its in-country funding goes) are an effective tool in the local fight against terrorism. Over 25,000 former combatants of the Moro National Liberation Front have already received livelihood assistance, and we are awaiting a peace accord with the Moro Islamic Liberation Front to offer similar assistance to MILF combatants. Our other assistance programs are providing better health care, education, and computers to local schools and have transformed some former conflict areas -- notably Basilan island -- into zones of peace where economic development is again taking place. USAID-backed education assistance is discreetly challenging the spread of extremist Islam through private, often foreign-backed radical madrassahs in Mindanao

and even Luzon.

Economic woes

16. (C) Despite respectable growth rates of 5-6 percent, the Philippines has had by far the lowest overall growth among the original ASEAN members over the past three decades. A population growth rate of over 2 percent constrains per capita growth. The Philippines also has one of the lowest ratios of tax revenue to GDP in the region, about 11 percent. Corrupt revenue bureaucracies, widespread tax evasion, and special interest tax exemptions have led to fiscal deficits and massive consolidated public sector debt, now about 140 percent of GDP. Debt service on the national debt consumes over 40 percent of the national budget. Although Arroyo's economic team receives high marks from the Philippine and foreign business community, the GRP on occasion has shown ill-considered interest in raising tariffs and arbitrarily imposing new taxes as a source of badly needed revenues.

17. (C) The Philippines could serve as a "proof of concept" country for President Bush's Millennium Challenge Initiative. The GRP's concept paper to the Millennium Challenge Corporation seeking funding as a Threshold Country addressed some of these issues, notably anti-corruption efforts, where USAID's assistance is already yielding results. Strengthening the rule of law and the judiciary will also be key to transform the Philippines and to create sufficient economic progress to sustain growth and job creation.

18. (C) One of the safety valves for the Philippines has been the export of Overseas Filipino Workers (OFWs), now estimated at about ten percent of the total population or twenty percent of the working population. They remit at least \$ 8 billion each year and help to maintain a positive cash flow as the GRP manages debt service payments on its public foreign debt of about \$ 28 billion, of which more than half is ODA lending.

19. (C) Unfortunately, the OFW phenomenon has also led to abuses in the trafficking of persons; the GRP is currently listed as a "Tier Two Watch List" Country but runs the risk this year of a downgrade to Tier III, which the Embassy believes is unjustified and therefore opposes. The progress made in 2004 in instituting prosecutions under a 2003 anti-TIP law is encouraging. We have encouraged G/TIP's Ambassador Miller to visit both to witness the GRP's commitment to and to encourage further progress against TIP.

Services

110. (U) With over 130,000 American citizens resident in the Philippines, and visits by about 400,000 others annually, there is a heavy demand for consular services. Our consular staff adjudicated over 200,000 NIVs and 50,000 IVs in 2004, while processing 10,000 US passport applications. The Embassy hosts the only Veterans Affairs office outside the US to provide services to this large community.
Ricciardone